

Department of Technology Services

Policies Underlying Network Rate Changes

February 14, 2007

Background

The mid-year rate package approved by the Technology Services Board in January included significant changes to the rates charged by the Department of Technology Services (DTS) for network services. Consistent with the DTS Guiding Principles for Cost Allocation and Rate Setting and the stated goal of consolidating data center rates and aligning them with costs, the mid-year rate package included the consolidation of the two existing rate schedules for network services into one and provided for full recovery of the costs of providing network services. Given that there were considerable differences between how the former HHSDC and Teale Data Center delivered network services and recovered the associated costs, the consolidation of these rate schedules was a complex yet critical step forward in the evolution of the DTS.

The need to fully recover costs for DTS Network Services will require that some customers see an increase in their DTS invoices. In order to correct the historical under-recovery of network costs, the DTS needed to make changes to rates that would produce a significant net increase in total revenue collected. Former Teale customers with “hub and spoke” configurations will experience the largest rate increases. Identifying if, when and how customers experiencing increases will be made whole remains a critical ongoing issue for DTS and the affected customers.

The DTS employed an enterprise perspective to the cost recovery of shared network resources (network backbone), resulting in concerns of fairness from customers that currently use a minimum of these shared resources. Given the significant investment and current operational benefits of the existing backbone architecture, the DTS based the new network rate structure on the premise that the backbone is a shared resource of the enterprise and the associated costs should be recovered from all customers to which its benefits are available. However, there are customers, who currently contribute very little to the traffic that traverses the backbone and as such, view charges related to the backbone infrastructure as unfair. Resolution of this issue is not only a matter of *if* customers are currently using the backbone infrastructure available to them, but also whether they *should* be using it.

Policy Issues – DTS Network Rate Development

The three primary policy issues underlying the development of the network rate changes are listed below. These Issues are displayed in more detail in Attachment I.

General Cost Recovery – Implementation of the general principle that the rates charged for Network Services should recover the related costs. This is not a controversial issue because the underlying policy decision is straight-forward and

does not have any specific operational impact. However, it is important to note that it is the primary reason that customer invoices are increasing.

Ownership/Refresh of Edge Equipment – The new network rates are based on a policy of transferring the responsibility for refresh of edge equipment from former Teale Customers to DTS. This is not a particularly controversial issue, because only the cost recovery methodology is changing while the net cost should stay very close to the same and many customers agree with the operational benefits of the proposed approach.

Recovery of Network Backbone Costs – The backbone is a shared resource that must be recovered through rates in a reasonably equitable way and consistent with an enterprise perspective. This is a controversial issue, because it materially effects *how* the network costs are recovered and in turn, how the revenue increase required will affect each customer.

DTS Plan of Action

Forward Enterprise Network Policy Issues to the State CIO Office for resolution:

Of the three policy issues discussed above, only the Recovery of Network Backbone Costs is considered an outstanding issue. This is due to the fact that it is based on the premise of an “enterprise perspective” as applied by the DTS. However, given differences of opinion among stakeholders regarding the validity of the backbone architecture assumption, the resolution of this issue is one of Enterprise Network Architecture and Policy and needs to be resolved by the State CIO’s Office. Among the questions to be answered are whether the State will continue to employ a “backbone” network architecture and what rules should govern customer use of the enterprise network and configuration of connections to it.

Move to Relieve Pressure from Budget Impacts Expeditiously – This issue must be resolved quickly in order to ensure customer programs are not negatively impacted by the rate change and to facilitate the discussion of the relevant Network Policy issues by diffusing the immediate crisis that this issue creates for customers. DTS will work with the Department of Finance toward the following objectives to be completed by the March 21, 2007 meeting of the TSB:

- a. Provide assurance to customers with network cost increases as a result of the rate proposal that their existing programs will not be negatively affected by the rate changes.
- b. Identify a funding mechanism to appropriately address customer impacts given potential changes posed by Enterprise Network Policy, CALNET II, and any changes to the rates and/or customer network redesigns that result.

Move forward with network rate proposal as proposed unless significant changes are determined to be necessary. Given the critical step forward that the network rate package represents in terms of consolidating and simplifying the DTS network rate schedule and improving cost recovery, the DTS will continue with the implementation of

the proposed rate package. However, the DTS recognizes that the results of the proposed actions above, or lack thereof, may require changes to be made and/or implementation to be delayed.